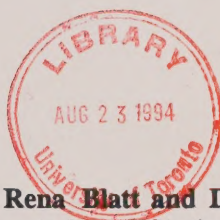


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**SMALL BUSINESS DEVELOPMENT  
REPORT NO. 42**

**FAMILY ENTERPRISE IN ONTARIO  
MARCH, 1991**



**Prepared by Rena Blatt and Dr. David Kirby  
Based on a study by Statistics Canada**

**Small Business Ontario  
Ministry of Industry, Trade and Technology**



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## **Introduction**

The subject of the family business has pervaded the literature on small firms for some time (Levenson, 1971; Barnes and Herson, 1976). Most frequently, two issues have dominated. Namely, the performance of the small family firm (Alcorn, 1982) and the issue of succession and the transference of power as the company grows and develops (Beckhard and Dyer, 1983; Peiser and Wooten, 1983). According to Barnes and Herson, (1976), the problem of "the family" in the family business is "one of the most difficult and deep-rooted problems faced by human organisations", while for Beckhard and Dyer (1983) the problems and issues faced by the family firm are unique to that type of organisation. Even so, family businesses continue to survive and dominate the economies of most societies, whether developed or underdeveloped. In this paper, the authors explore the size, performance and concerns of family-owned businesses compared to non-family owned businesses in Ontario, Canada, in order to assess their impact on the economy and to determine how best to assist them in meeting their full potential.





## Methodology

The study is based on a postal survey of Canadian Controlled Private Corporations (CCPC)<sup>1</sup> in Ontario, with a telephone follow-up. Conducted in April 1990 on behalf of the Ontario Ministry of Industry, Trade and Technology, Industry, Science and Technology Canada and the Canadian Association of Family Enterprise, the survey is based on a sample drawn from listings compiled by Revenue Canada in 1987. Revenue Canada defines a CCPC as:

- to
- a) a private corporation;
  - b) a corporation that was resident in Canada at that time and was incorporated in Canada or resident in Canada from June 18, 1971 that time;
  - c) a corporation that is not controlled directly or indirectly by one or more non-resident persons;
  - d) it is not controlled directly or indirectly by one or more public corporations (other than a prescribed Venture Capital Corporation), and;
  - e) it is not controlled directly or indirectly by any combination of persons in c) and d) above.

The companies thus listed by Revenue Canada are classified into ten industry groups<sup>2</sup> and five turnover ranges<sup>3</sup> resulting in  $N_{ij}$  units per stratum. The overall sample size  $N$  was predetermined for Ontario at 1500 corporations. The individual stratum sample sizes  $N_{ij}$  were allocated by:

$$N_{ij} = n \cdot \frac{N_{ij}}{N}$$

adjusted for individual stratum sales variation and minimum sample size.

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<sup>1</sup>It was recognized that by sampling CCPC's a higher proportion of family businesses was likely to be found than in the general business population which would include publicly owned corporations. This was not considered to be a difficulty as it was not intended to use this survey to determine the number of family enterprises in Ontario.

<sup>2</sup>Agriculture; Food Manufacturing; Clothing Manufacturing; Fabricated Metal Manufacturing; Construction; Wholesale; Retail; Finance and Insurance and Service to Business; Government Services; Personal and Accommodation Services.

<sup>3</sup>\$ 25,000 - 250,000  
250,000 - 2,000,000  
2,000,000 - 5,000,000  
5,000,000 - 10,000,000  
10,000,000 - 50,000,000



Where  $N$  = total number of corporations in Ontario  
 $i = 1 \dots 5$  sales size ranges  
 $j = 0 \dots 9$  industry groups

The resultant final sample size was 1,514 corporations. The estimates are reliable to within 5 percent of 1987 total sales.

The  $N_{ij}$  units were selected using a systematic random selection process. The Sampling Interval  $n_{ij}/N_{ij}$  was computed and a random start generated between 1 and the sampling interval. The first unit selected was defined by the random start and each subsequent unit defined by the sampling interval.

A questionnaire was mailed out to each of the selected corporations. Nonrespondents were followed-up by telephone from the appropriate Statistics Canada Regional Offices. The response rate was over 98% in Ontario and 75.8% of the respondents completed at least part of the questionnaire.

The assumption was made that businesses which did not provide data behaved the same way as those that did. The sampling weights were adjusted to reflect this:

$N_{ij}$  = original sample selected

$\frac{N_{ij}}{n_{ij}}$  = original stratum weight

$n_{ij}'$  = sample response

$\frac{N_{ij}}{n_{ij}'}$  = revised stratum weight

The adjusted weights were applied at the stratum level to each response unit to produce the population estimates.





## Findings

There are 166,951 Canadian Controlled Private Corporations (CCPC) in Ontario. It is estimated from the survey that 70% of this group are family businesses when a family business is defined as:

- one which was so defined by the respondent, or
- one in which family members of the respondent have money invested, or
- one in which family members of the respondent are employed.

Table 1  
Ontario Businesses by  
Ownership and Sales Range, 1987

Sales Range	Ownership				Total	
	Non-Family		Family			
	Adjusted	%	Adjusted	%	Adjusted	%
\$25K - 250K	25,924	51.35	57,819	49.60	83,743	50.16
250K - 2M	19,461	38.55	47,709	41.00	67,170	40.23
2M - 5M	3,320	6.60	6,757	5.80	10,077	6.04
5M - 10M	988	1.90	2,501	2.10	3,489	2.09
10M - 50M	791	1.60	1,681	1.50	2,472	1.48
TOTAL	50,484	30.24	116,467	69.76	166,951	100.0

From Table 1 it would seem that just over 90 percent of the sample reported revenues below \$2 million in 1987 compared with over 96 percent for all Canadian incorporated companies and that within the sample the family businesses are close in size to the non-family businesses.



Table 2  
Ontario Businesses  
by Ownership and Industry

Industry	Ownership				Total	
	Non-family		Family			
	Adjusted	%	Adjusted	%	Adjusted	%
Agriculture	526	1.0	4,637	4.0	5,163	3.09
Food Manufacturing	192	0.4	2,088	1.8	2,280	1.37
Clothing Manufac'g	2,292	4.5	3,251	2.8	5,543	3.32
Fab Metal Manufac'g	4,008	7.9	3,765	3.2	7,773	4.66
Construction	5,127	10.2	24,238	20.8	29,365	17.59
Wholesale	5,070	10.0	11,912	10.2	16,982	10.17
Retail	5,545	11.0	22,070	19.0	27,615	16.54
Finance & Insurance, Service to Business	22,073	43.7	26,576	22.8	48,649	29.14
Govt Services	1,201	2.4	1,199	1.0	2,400	1.44
Pers'l & Accomo- dation Services	4,450	8.8	16,731	14.4	21,181	12.69
Total	50,484	30.24	116,467	69.76	166,951	100.0

As Table 2 reveals, family businesses are to be found in all industrial groups. Whilst in Wholesale Trade, family and non-family owned businesses are represented in the same proportion, just over 10% of their respective totals, this is not the case in all sectors. Finance, Insurance and Business Service has 43 percent of the non-family businesses as compared to 22.8 percent of the family businesses. However 20.8 percent of family businesses are in Construction as compared to 10.2 percent of non-family businesses. Nineteen percent of family businesses are in Retail Trade as compared to only 11 percent of non-family business. Additionally family businesses are more prevalent in Personal and Accommodation Services.





Table 3  
Number of Family-Owned Businesses  
by Grouped Industry Sector and Size

Sales \$	No. of Family-Owned Businesses						Total	
	Goods Producing		Services		Trade			
	Adjusted	%	Adjusted	%	Adjusted	%	Adjusted	%
25K-250K	16,416	51.3	29,703	58.9	11,700	34.4	57,819	49.6
250K-2M	11,573	36.1	19,062	37.8	17,074	50.3	47,709	41.0
2M- 5M	2,561	8.0	1,068	2.1	3,128	9.2	6,757	5.8
5M-10M	841	2.7	444	0.9	1,216	3.6	2,501	2.2
10M-50M	639	2.0	178	0.3	864	2.5	1,681	1.4
Total	32,030	27.5	50,455	43.3	33,982	29.2	116,467	100.0

Table 3 reveals that small service firms make up the single largest group whilst large service firms make up the smallest. Over 43 percent of the sample was in services, 29 percent in Trade and 28 percent in Goods Producing. Trade is the only category in which the smallest category is not the most prevalent. Here, 50 percent of the family businesses are in the \$250,000 to \$2 million size category which has a 36 percent of share of the goods producing and 38 percent of service businesses sectors, respectively.

Assets, Equities and Profits have been calculated from income tax forms. As can be seen (Table 4) the comparative distribution of assets among the two groups is very similar. Family businesses have 6 percent fewer assets proportionately in the smallest size category and 3 percent more in the largest.



Table 4  
Assets by Size of Firm  
(\$C thousands)

Sales Range	Non-Family		Family		Total	
	Assets	%	Assets	%	Assets	%
\$25K - 250K	10,332,376	19.3	13,033,061	13.1	23,365,437	15.3
250K - 2M	15,576,815	29.2	28,756,988	29.0	44,333,803	29.0
2M - 5M	7,822,896	14.6	15,625,841	15.7	23,448,737	15.4
5M - 10M	5,440,174	10.2	12,485,937	12.6	17,926,111	11.7
10M - 50M	14,289,111	26.7	29,442,561	29.6	43,731,672	28.6
<b>Total</b>	<b>53,461,372</b>	<b>35.0</b>	<b>99,344,388</b>	<b>65.0</b>	<b>152,805,760</b>	<b>100.0</b>

In every size category, the average family business has fewer assets than the non-family business. Among the firms in the lowest sales range, the average non-family business has assets of \$398,561 as compared to \$225,411 for the family business. In the highest sales range, the difference is just under \$550,000.

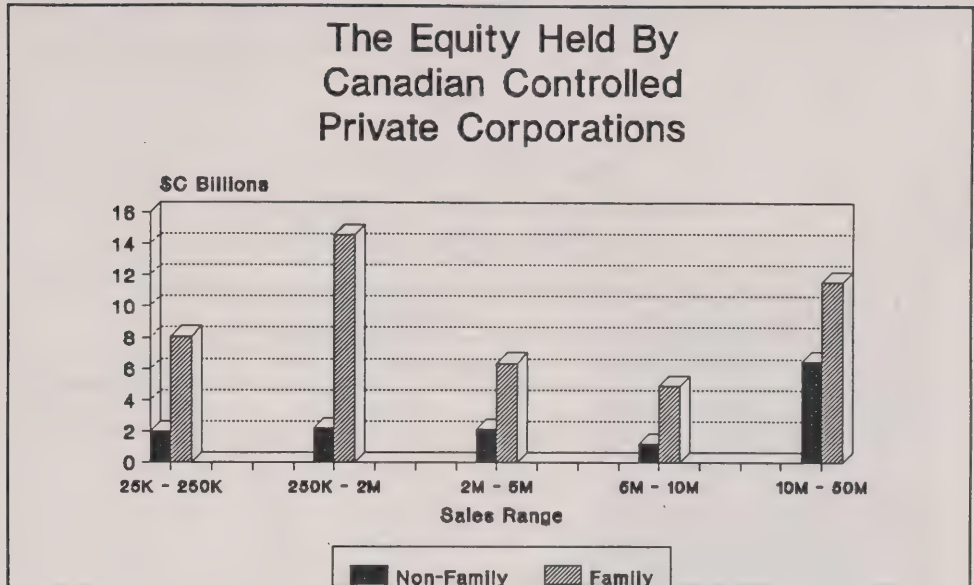
However, the average family business has greater equity than the non-family business in every sales size range but the highest. In the lowest sales range, the average family business holds almost twice the equity of the non-family business.

The largest group of firms (49.6 percent) is in the lowest size category and it holds less than 20 percent of the equity held by family businesses. The next size category which contains 41 percent of the businesses holds the largest percentage of equity, 32 percent. Among non-family businesses, the \$10 million to \$50 million category holds almost half (46.1 percent) of the equity although they represent only 1.5 percent of non-family firms.





Chart 1



From the administrative records, the growth in sales and growth in assets between 1984 and 1987 was tabulated. From Table 5, it can be seen that for family businesses the greatest sales growth was in the largest sales range (67.6 percent) whilst in the non-family firm it was in the \$5M - 10M category. Among family firms the smallest growth was in the smallest size range and the growth progressed upward as companies grew. Among the non-family firms there was no steady pattern. The smallest growth was in the second lowest sales size range.

Table 5  
Growth in Sales from  
1984 - 1987

Sales Range	Non-Family	Family
	% of Sales	% of Sales
\$25K - 250K	12.9	9.5
250K - 2M	4.9	41.9
2M - 5M	36.9	43.4
5M - 10M	61.1	46.2
10M - 50M	49.6	67.6



When Table 6 is analyzed, it can only be stated that there is no pattern to the growth in assets. For both family and non-family businesses the greatest growth was in the two highest sales range groups.

Table 6  
The Growth in Assets  
of Family and Non-Family Enterprises  
1984 to 1987

Sales Range	Non-Family	Family
	% of Assets	% of Assets
\$25K - 250K	55.0	8.5
250K - 2M	11.4	62.0
2M - 5M	60.1	39.1
5M - 10M	69.7	65.1
10M - 50M	165.4	106.1

Within the questionnaire, respondents were asked to rank 6 challenges with which they were presented. The list was:

- Succession
- Management and organization
- Motivating and educating family
- Growth and diversification strategy
- Financing
- Capital gains taxes

It was expected that succession would be the top ranked concern of the respondents. In fact, Management and organization was the concern that garnered the most "number 1's" (31.8 percent). It also received the greatest percentage of second rankings (25.3 percent). Succession, on the other end of the scale, got 30 percent of the "6's" and only 13.7 percent of the "1's". Table 7 presents the matrix of responses. This table is based on actual responses to the survey and is not adjusted to the population.





Table 7  
Business Challenges Ranked by Importance  
Family-owned businesses - Survey Respondents  
(Numbers in parenthesis refer to those who self-defined)

Challenge	Rank						
	1	2	3	4	5	6	7
Succession	94 (89)	74 (71)	66 (62)	86 (77)	124 (110)	191 (172)	159 (87)
Management and organization	217 (193)	171 (157)	125 (115)	84 (78)	60 (53)	29 (28)	108 (44)
Motivating and educating family	39 (33)	87 (80)	114 (110)	139 (131)	161 (150)	115 (97)	139 (67)
Financing	126 (118)	109 (92)	139 (128)	101 (88)	105 (102)	89 (84)	125 (56)
Capital Gains Tax	71 (67)	80 (76)	83 (70)	126 (112)	132 (119)	170 (161)	132 (63)
Growth and Diversification	136 (121)	156 (143)	146 (128)	126 (120)	73 (65)	43 (43)	114 (48)

The definition that was used to define a family enterprise: that the respondents said it was one, or that other family members worked in it, or that other family members had money invested in it, might have skewed the results to this question as those who did not think of themselves as a family business might answer differently from those who did. A separate tally was done. In this tally only those who specified that they had family businesses were counted. Management and organization received 31 percent of the "1's" and 25.4 percent of the "2's". Succession received only 14.3 percent of the "1's" and 11.5 percent of the "2's". In fact, there is virtually no percentage difference between the two sets of findings.

It is only when those respondents who expected succession to occur within 1-3 years are isolated that a larger percentage ranking succession as their number 1 challenge is identified. Twenty-nine percent of such respondents then identified succession as the major problem as opposed to 25.8 percent who ranked Management and organization as the first challenge. That group represented only 8 percent of the sample, whilst those who thought that succession was more than 10 years away represented almost one-third of the sample. An even larger group, 36.7 percent had indicated that they were unsure of when succession would take place. It is these two groups, representing more than two-thirds of the sample, that so strongly influence the results.



Of considerably more importance for the family firm than succession is growth and diversification, closely associated with financing. Sooner or later, every successful business must face the problems of growth and expansion and, as Peiser and Wooten (1983 p.58) have observed "where family businesses are concerned, normal growth problems are compounded by the difficulties of separating family relationship from business decisions." While the transfer of power has not emerged as a major issue among Ontario's small, family businesses it is probably this, rather than succession, which is the primary concern, particularly for those businesses which are expanding (Stevenson and Jarillo-Mossi, 1986).

Table 8  
First and Second Ranked Challenges  
Family-owned businesses - Survey Respondents  
by Years to Succession

Challenges	Years to Succession				
	1-3	4-6	7-10	> 10	DK
Succession*	29 24.6	28 19.7	30 15.5	44 9.7	37 8.0
Management and organization	29 24.6	42 29.6	37 19.1	130 28.6	151 32.7
Motivating and educating	11 9.3	12 8.5	25 12.9	41 9.0	37 8.0
Financing	15 12.7	14 9.9	29 15.0	86 18.9	91 19.7
Capital Gains	16 13.6	17 12.0	38 19.6	45 9.9	45 9.7
Growth and diversification	18 15.3	30 21.1	35 18.0	108 23.8	101 21.9

*\*The percentages represent the combined "Number 1" and "Number 2" in the years to succession category.*

Another factor that would impact on this result is how many generations have been in control of this business. An owner who is both the first generation and more than 6 years from succession might not be as concerned about succession. First it has never been experienced and second it is too remote a future to consider. Table 9 displays the number of generations that have owned the family business against the numbers of years they expect to succession to the next generation.

More than half of the respondents are in their first generation and 26 percent of these are more than ten years from succession. Just over 28 percent of the sample were in the second generation and 44 percent of this group were more than ten years away from succession. This reinforces the explanation for the low level of concern with succession.





Table 9  
Succession to the Next Generation  
by Number of Generation that have owned  
the Family Business

Expected ownership to next generation	Generations of Family Ownership					
	1	2	3	4	MI*	Total
1 - 3 years	38	20	3	1	-	62
4 - 6 years	50	13	9	1	-	73
7 - 10 years	62	25	10	2	-	99
More than 10 years	117	100	20	5	3	245
Do not know	183	69	11	4	48	135
Totals	450	227	53	13	51	794

*\*Missing Information*

Respondents were presented with a list of items in which they might be able to receive assistance that would help the family business grow. Table 10 provides the percentage of respondents that indicated that they would like assistance in that area. It is interesting to note that more than half of the respondents indicated that they would like assistance only with the acquisition of new technology. Exporting seems a low priority for these businesses with only 31 percent wishing help to export to the U.S. and 21 percent wishing assistance for overseas exporting.

From the point of view of a government, this is the pivotal information of this study. There are several programs that assist companies to export both to the U.S. and beyond and a new program that assists companies in acquiring technological personnel. There are also research centres such as the Ontario Innovation Centre which access and assess new technology. When setting priorities for government programming, results such as these are important. Virtually half of the respondents were seeking assistance with marketing within Canada and this has not been addressed by the government.



Table 10  
Type of Help That Would Assist  
The Growth of Family Businesses

Category of Assistance	% Wishing Assistance
Acquiring New Technology	52.4
Marketing within Canada	49.9
New Product Development	43.1
Automating Production	37.8
Forming Strategic Partnerships	33.9
Exporting to the U.S.	31.3
Exporting Overseas	20.9

## Conclusion

Family businesses feature significantly in the corporate structure of Ontario, particularly in the agricultural, construction, retail and personal and accommodation sectors of the economy. While they tend to be only marginally smaller than non-family firms in turnover terms, the process of growth does appear to cause problems for management associated with the transfer of power and the process by which discussions are made within the company.

Within the scope of this research, it has not been possible to explore these issues in any detail. However, it would seem that if small family firms are to grow and achieve their full potential for economic development, attention will need to be focused on this issue. In particular, it will be necessary to understand fully the constraints which these issues impose upon the growth of the family business and to examine the processes by which the successful family firms facilitate the transition from an entrepreneurial to a corporate culture, without losing those very characteristics which have contributed to their success, and which will be required by all firms in the 1990s and beyond (Peters, 1987).



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**APPENDIX**  
**One Digit Standard Industrial Classifications Codes**



Industry<sup>1</sup>

Description

- |   |   |
|---|---|
| 0 | <ul style="list-style-type: none"><li>● Agricultural industries</li><li>● Fishing and Trapping industries</li><li>● Mining (including Milling), Quarrying and Oil Well industries</li></ul>   |
| 1 | <ul style="list-style-type: none"><li>● Manufacturing Industries<ul style="list-style-type: none"><li>● Food</li><li>● Beverage</li><li>● Tobacco Products</li><li>● Rubber Products</li><li>● Plastic Products</li><li>● Leather and Allied Products</li><li>● Primary Textiles</li><li>● Textile Products</li></ul></li></ul>   |
| 2 | <ul style="list-style-type: none"><li>● Clothing Industries<ul style="list-style-type: none"><li>● Men's and Boy's</li><li>● Children's</li><li>● Other Clothing and Apparel</li></ul></li><li>● Wood</li><li>● Furniture and Fixtures</li><li>● Paper and Allied Products</li><li>● Printing, Publishing and Allied</li><li>● Primary Metal</li></ul>                                      |
| 3 | <ul style="list-style-type: none"><li>● Fabricated Metal Products</li><li>● Machinery (except Electrical)</li><li>● Transportation Equipment</li><li>● Non-Metallic Mineral Products</li><li>● Refined Petroleum and Coal Products</li><li>● Chemical and Chemical Products</li><li>● Other Manufacturing</li></ul>   |
| 4 | <ul style="list-style-type: none"><li>● Building, Developing and General Contracting<ul style="list-style-type: none"><li>● Industrial and Heavy Construction</li><li>● Trade Contracting</li><li>● Services to Construction</li><li>● Transportation</li><li>● Pipeline Transport</li><li>● Storage and Warehousing</li><li>● Communications</li><li>● Other Utilities</li></ul></li></ul> |





IndustryDescription

- |   |  |
|---|--|
| 5 | <ul style="list-style-type: none"><li>● Wholesale Products:<ul style="list-style-type: none"><li>● Farm</li><li>● Petroleum</li><li>● Wholesale Food, Beverage, Drug and Tobacco</li><li>● Apparel and Dry Goods</li><li>● Household Goods</li><li>● Motor Vehicles, Parts and Accessories</li><li>● Metals, Hardware, Plumbing, Heating and Building Materials</li><li>● Machinery, Equipment and Supplies</li><li>● Other Products</li></ul></li></ul> |
| 6 | <ul style="list-style-type: none"><li>● Retail Products<ul style="list-style-type: none"><li>● Food, Beverage and Drugs</li><li>● Store, Apparel, Fabric and Yarn</li><li>● Household Furniture, Appliances and Furnishings</li><li>● Automotive Vehicles, Parts and Accessories</li><li>● General Retail Merchandising</li><li>● Non-Store Retail</li></ul></li></ul>   |
| 7 | <ul style="list-style-type: none"><li>● Finance and Insurance Industries</li><li>● Business Services</li></ul>   |
| 8 | <ul style="list-style-type: none"><li>● Government Services</li></ul>  |
| 9 | <ul style="list-style-type: none"><li>● Accommodation Services</li><li>● Personal Services</li></ul>   |





